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SUBJECT: RE-ORIENTING THE ORIENT: ECONOMIC TRANSFORMATION
IN MOROCCO'S NORTHEAST

REF: RABAT 392

11. (SBU) Summary: The Oriental region in northeastern Morocco is undergoing a rapid transformation from one of Morocco's poorest and least-developed regions to one of its most richly-endowed with development projects and infrastructure. The flood of new construction, investment, and social programs demonstrates the Government of Morocco's determination to spur economic growth as a tool to alleviate both poverty and the risks that it perceives from economic discontent)- social instability, susceptibility to extremist ideology, and potential unrest in a border region adjoining an adversarial neighbor. This cable, outlining Rabat's growth strategy for this remote region, is the first of two reports on economic development in the Oriental and its impact on Morocco's growth and international relations. Septel will discuss the region's role in Morocco's international economic relations. End Summary.

Lifting the Burden of History

12. (U) The Oriental, one of Morocco's 16 regions, occupies the northeast corner of the Kingdom, including most of Morocco's Mediterranean coast and the majority of its non-desert land border with Algeria. The region comprises about 18 percent of Morocco's (non-Saharan) land area, but is home to only 2 million people, or 6.25 percent of the population. Under French rule, political, commercial and family ties had been oriented across the border toward Algeria, and poor transportation links westward with the rest of Morocco left the region isolated following independence in 11956. Uprisings in the nearby Rif Mountains in 1958 and rioting across northern Morocco in 1984 engendered central government antagonism toward the region. This history, along with decades of low rainfall, gave the region Morocco's highest poverty rate (26 percent) by 2002) a "truly damaged" region, in the words of the director of the Regional Investment Center (CRI).

13. (U) Nearly every local contact during Econoff's May 11) 15 travel in the region spontaneously cited King Mohammed VI's March 18, 2003 speech in Oujda as the inflection point in the Oriental's prospects. The King proposed a regional development strategy focused on constructing infrastructure, attracting private investment, creating opportunities for entrepreneurship (particularly among young people), and enhancing the quality and relevance of education and job training. Since that speech, contacts emphasized, the King has returned 17 times to the region to assess the progress of development projects) in contrast to the two visits of his father during the latter's 38-year reign. The royal attention has given people in the region "unprecedented"

optimism, said Abdelkhalek Bendriss, the regional director for the Banque Populaire, expressing a sentiment repeated by many contacts.

¶4. (U) In addition to the CRI-managed plans for industrial parks, offshoring business centers, airports, and tourism developments, the effect of this royal attention can be seen most strongly in the quick pace of construction of new transportation links and the ubiquitous upgrades and beautification of streets, public places, and public buildings in the cities of the region. A new rail line, set to open in June 2009, will finally link the port of Nador to Morocco's rail network, allowing the port to compete for the business of major cities like Fez, and highways under construction will connect Oujda to Fez and Nador, and link the region's cities along the Mediterranean coast.

¶5. (U) Projects by the National Electricity Office (ONE) and National Potable Water Office (ONEP) have brought in-home access to electricity and water to nearly 100 percent in the region (from around 25 percent in the early 1990s). Government-sponsored projects, such as the electrical and water expansions, that do not fall under the CRI mandate owe much of their momentum to the Agence de l'Oriental, a GOM agency that has little budgetary authority of its own, but coordinates among other Ministries and state-owned offices to prioritize projects for the Oriental.

Regional Economy

¶6. (U) The Oriental is the home of the highest number of

Moroccans Residing Abroad (MREs), whose remittances fund the region's unusually high savings rate. With porous borders flanking the region (the Spanish enclave of Melilla on the coast and the Algerian border to the east), the region is also known for trade in contraband goods (Septel). Historically, the region hosted coal and mineral mining, but those operations have closed or dwindled to almost a standstill. Major products include agriculture (olives, cereals, spices, and citrus fruits), light industry, and raising sheep, although both agriculture and sheepherding were adversely impacted by twenty years of below-normal rainfall since the 1980s.

¶7. (U) MREs dominate the region's economy, particularly in the port city of Nador. Around 30 percent of Morocco's immigrants to Europe hail from the Oriental region, estimated Hachmi Bentahar, the vice dean of Oujda's School of Law. M. Houbaine of the Nador directorate of the Banque Populaire noted that while the average personal bank deposit in Morocco holds approximately USD 850, in the Nador area the average value is ten times higher, thanks to remittances from overseas relatives. As a result, Nador was until recently Morocco's second most important city for financing behind Casablanca (but has since dropped to third behind Rabat). Tarik Yahya, President of the Chamber of Commerce of Nador, told Econoff that Nador uses only 11 percent of banking deposits for local lending; the balance is absorbed into the Moroccan financial sector through Casablanca. This high savings rate also means that essentially all project financing in the Oriental is locally financed, protecting developers from international changes in conditions.

Planning for Growth

¶8. (U) The targeted industries for Oriental's growth are tourism, agriculture, industry, and offshoring. The first two hotels of the planned 12 hotels in the 1600 acre "tourism station" of Saidia (on the coast next to the Algerian border) will open in June with 4,000 beds (out of an eventual 40,000 planned). Another four sites along the Oriental's Mediterranean coast have been identified for tourist development, including the ecologically sensitive Mar Chica

lagoon of Nador. Construction of the first resort of the Mar Chica development has started, but the plan for Mar Chica reserves most of the area as a wildlife preserve, and the resorts will aim at high-value eco-tourists (in low numbers), according to Jilali Hachemi, regional director of the Moroccan Bank of External Commerce in Nador. A new airport in Oujda, the highway connections to Fez, and the "rocade" highway along the Mediterranean coast are all an essential part of "de-isolating" the region and opening it to tourist traffic, Chourak explained.

¶9. (U) Diversification of outside investors in the tourism developments is an integral part of the GOM's strategy, for example, selecting a Spanish hotel developer, a British real estate promoter, and an American golf course developer for the Saidia project. The varied international links should ensure that no one nationality dominates the tourism market, avoiding an unhealthy dependency on the financial health of a single market, Chourak argued. The CRI expects the Saidia resort development to create 8,000 jobs at the tourism complex, with an additional 42,000 jobs created indirectly to support the growing tourism industry (Reftel).

¶10. (U) The second focal area of growth for the Oriental is agriculture. The region includes areas noted for sheep raising, citrus fruits, olives, and cereal cultures, but availability of irrigation water limits productivity. The GOM has subsidized investment in drip irrigation systems in 25 thousand acres in the region. The president of Berkane's Chamber of Agriculture, Mohammed El Haddadi, explained that the GOM pays 60 percent of the cost of farmers' drip irrigation systems, but argued the state would still come out ahead if it paid all the cost, by reaping a 40 percent savings in water used for agriculture. The GOM is also divesting itself of state-owned farms in the region to allow entrepreneurs to experiment with new crops and growing methods.

¶11. (U) Haddadi assessed that the GOM's "Green Morocco Plan" for improving agricultural productivity is "exactly what we need" in the Oriental, offering technical and financial support to small farmers in the region, and, "opening their horizons" to develop strategic plans and goals. The plan

aims to organize small operators into cooperatives to build a "critical mass" for achieving economies of scale in seeking out market opportunities and moving up the value chain in conditioning and processing agricultural products. Other agricultural plans include shifting citrus production from clementines to other citrus varieties that can be transformed into higher margin products (such as juices), promoting local brands for olive products and mutton to increase the value of the production, and reaching out to new export markets.

¶12. (U) Nador-area agriculture has shifted to new crops and techniques in recent years as Spanish producers have shifted farming to the Nador region for lower production costs, either by leasing land and operating the farms themselves, or by contracting with local farmers to supply European markets. In both cases, the Spanish producers have introduced higher-yield techniques to local producers, explained Nador Chamber of Commerce President Yahya.

¶13. (U) A third focus for the Oriental region is offshoring operations and industrial parks. Oujda now has Morocco's highest density of fiber optic internet connections, Chourak said, in the hope of capturing European offshoring business. As part of Morocco's industrial "Emergence" plan, Oujda has been selected to host a "Kyoto Park" industrial center, meant to host all future renewable energy and energy efficiency manufacturing.

¶14. (U) While the Government of Morocco has planned the offshoring site and industrial zones in Oujda, an industrial park in Nador is rising under the aegis of Nador's Chamber of Commerce) the only park in Morocco to be developed by a Chamber of Commerce) and has already leased nearly all of its space. The key to the Nador park's success, stated

Chamber of Commerce president Yahya, is its response to local demand from small and medium enterprises. Yahya and Chourak both argued that the multiplying transportation links in the Oriental) its four airports, new highways, and in particular the rail link connecting the Nador port to the rest of Morocco's rail lines, will accelerate economic activity, linking the Oriental both to Morocco and to Europe.

¶15. (U) While Oujda already boasts several university campuses, the education system is now trying to "orient the curriculum" to the job opportunities expected in tourism, offshoring and industry, Chourak told Econoff. The Chamber of Commerce of Oujda has partnered with a French business school to open a business school in Oujda starting in 2009, and has worked with the Ministry of Education and Ministry of Industry to develop training curricula for technical trade schools. However, law school Vice-Dean Bentahar, who is also the president of the Network of Associations for Development in the Oriental, regretted that Morocco's university system was likely not flexible enough to respond with appropriate courses fast enough to meet private sector need for trained workers. The law permits secondary education systems to customize up to 30 percent of the curriculum with local content, he said, but thus far the local school systems had not incorporated any training aimed at the new jobs likely to be created.

Social Programs Progressing in Tandem

¶16. (U) In tandem with plans to spur investment, the GOM has made a concerted effort, under the King's "National Initiative for Human Development" (INDH), to reduce the sentiment of isolation or exclusion of the poorest residents of the region. As city populations swelled in the past two decades following mine shutdowns and drought in agricultural areas, Oujda in particular witnessed undirected and ill-managed growth of slums in its outskirts, harboring 25 percent of the city's population. Since 2005, massive building programs have replaced most of the slums with government-constructed apartment buildings with electricity and water service, and INDH is now constructing community centers in 10 of the poorest neighborhoods among the outskirts of Oujda.

¶17. (U) When Econoff made an unannounced visit to the one-year-old El Amal community center, the health clinic was bustling, the training rooms were occupied by NGOs running four different one- or two-year training programs for neighborhood women (embroidery, hairdressing, cooking, and textile painting), and fifty neighborhood children were attending preschool classes taught by volunteers. Rachid Ben

Kaddour, Head of Evaluation for INDH's Social Action Division in Oujda, explained that while the central government pays for the construction of the facilities, and government employees staff the co-located health clinic and public administration offices, all of the other activities at the center are run and funded by volunteer associations. Residents Econoff spoke with were universally positive about the utility of the community centers and the change it had made in their lives.

Development in the Service of Security

¶18. (SBU) CRI director Chourak commented that the King's 2002 assessment of the region's needs, and subsequent attention to its development, stem as much from security concerns as from development ideals. Fifty-five percent of the growing population is under 25 years old, and in 2002 there were few prospects for their employment, he stated. The King recognized that a disaffected mass of young Moroccans, living along the border with a "bad neighbor," was a security risk due to the potential for recruitment to radical or violent ideologies.

¶19. (SBU) Oujda Chamber of Commerce President Driss Houat concurred with the security rationale for economic development, pointing out that the "isolation" of the region had made Moroccan citizens dependent on Algeria for food and fuel, creating a strategic vulnerability. The development plan both aims to "re-orient" the region toward Rabat and the rest of Morocco, and, with its focus on employment creation for young workers, to "prevent the creation of a favorable terrain for extremists," Chourak asserted. Another element of the anti-extremist strategy is to encourage the local associations working with INDH-sponsored projects to run contribution drives among potential donors in both well-off and poorer neighborhoods for campaigns to build schools, provide services to impoverished families, and so forth. Soliciting these contributions for social programs dries up the funds for extremists to tap, Chourak explained.

Forget Algeria

¶20. (SBU) Comment: After years of stewing in isolation and pining for a reopening of the land border with Algeria to kick-start commerce in the region, business leaders in the Oriental have turned inward to the rest of Morocco to reestablish economic growth. The new impetus to invest, build, and upgrade is immediately apparent to visitors, and optimism about the Oriental's future is nearly universal. The willingness of the GOM to direct so much spending toward new construction, investment, and social programs demonstrates its determination to spur economic growth as a tool to alleviate poverty and the risks that it perceives from economic discontent)- social instability, susceptibility to extremist ideology, and potential unrest in a border region adjoining an adversarial neighbor. The potential success of the investment decisions in tourism, agriculture and industry will depend on both Moroccan and international market preferences and the severity of the current economic downturn, but the decision to no longer wait for commerce with Algeria seems to have opened the door to the possibility of a more prosperous future.

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